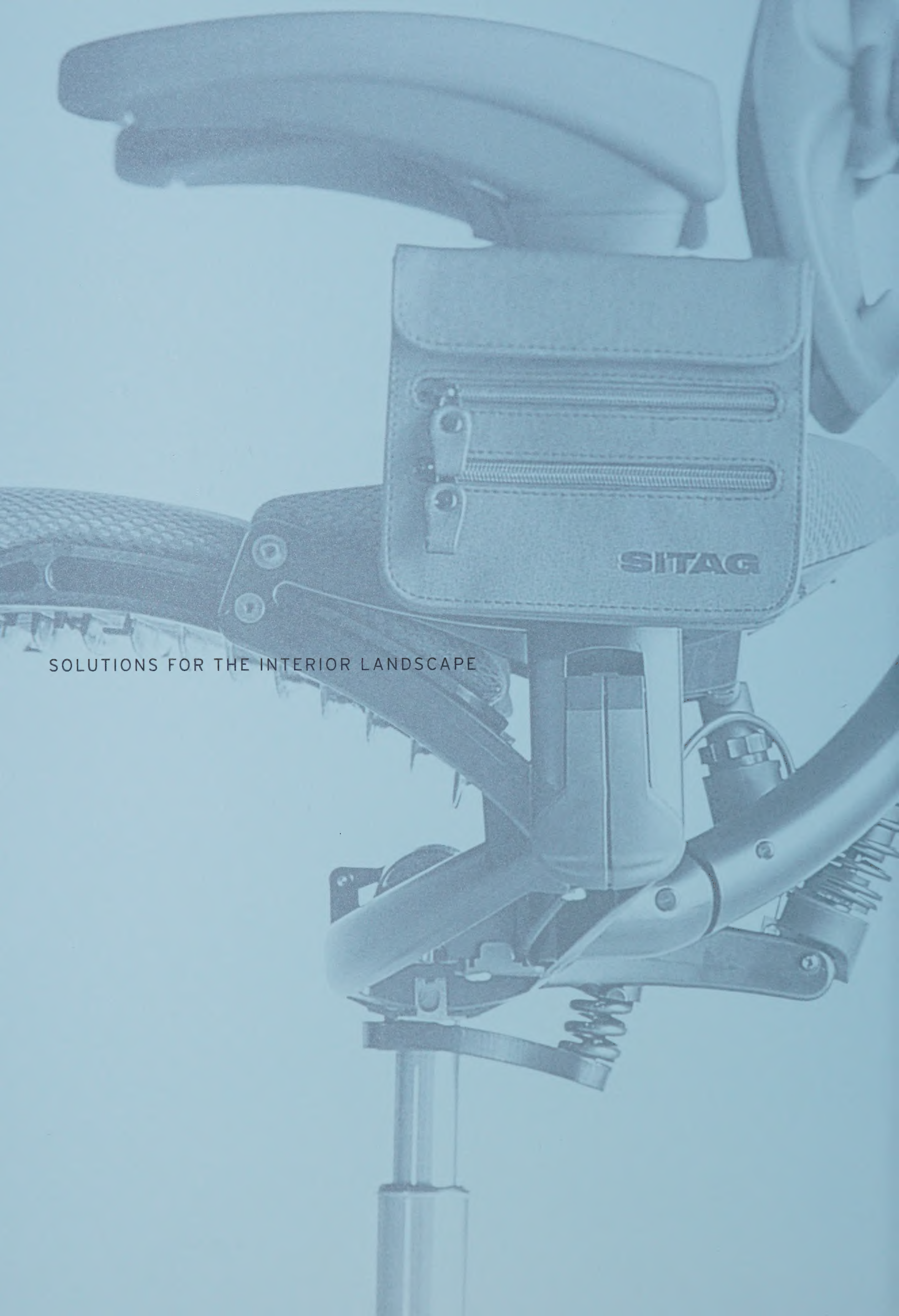
INSCAPE

Design with Intelligence™

ANNUAL REPORT 2002



SOLUTIONS FOR THE INTERIOR LANDSCAPE

Platform An innovative office furniture system that offers exceptional flexibility, superior aesthetics and advanced cable management capabilities

Office Specialty Renowned worldwide as an innovative designer and manufacturer of premium quality and highly flexible filing and storage solutions

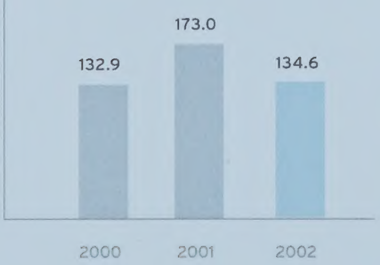
Sitag Award-winning ergonomic seating and work tools that support a healthy and productive office environment

Architectural Interiors Elegant full-height movable walls that offer the ability to redefine interior space, fast, cost-effectively, and in an environmentally-conscious manner

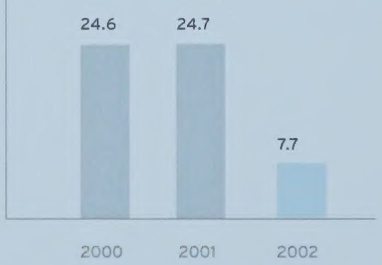
FINANCIAL HIGHLIGHTS

Years ended April 30 (in millions of dollars except per share amounts)	2000	2001	2002
Income Statement Data			
Revenue	$ 132.9	$ 173.0	$ 134.6
Gross margin	57.3	69.0	48.2
Net income	24.6	24.7	7.7
EBITDA	37.4	39.7	18.2
Earnings per share	1.64	1.64	0.51
Balance Sheet Data			
Total assets	$ 103.0	$ 132.7	$ 125.6
Shareholders' equity	81.4	100.4	101.7
Cash Flow Data			
Net cash flow from operations	$ 27.7	$ 31.1	$ 13.8

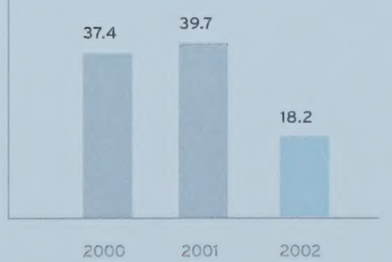
Total Sales
(in millions of dollars)



Net Income
(in millions of dollars)



EBITDA
(in millions of dollars)



Net Cash Flow from Operations
(in millions of dollars)

DESIGN WITH INTELLIGENCE... OUR MISSION AND PROMISE

Inscape offers a comprehensive suite of products that allows customers to define, design and adapt their interior office landscape.

OUR PRODUCTS . . .

Our products are precision engineered, adaptable and designed to evolve with changing needs. Our commitment to design formed to function results in furniture solutions that accommodate the visual and cultural demands of any environment.

OUR GOAL . . .

Our goal is to continue to provide flexible workspace solutions that address the endless changes in technology and work styles – to allow our customers to design their own interior landscape – with intelligence.

FELLOW SHAREHOLDERS:

Our 2002 fiscal year which ended on April 30, 2002 was one filled with challenges and opportunities. Our industry has been severely impacted by the economic slowdown in North America and other events that have contributed to a reluctance by many organizations to make capital investments in their office facilities. However, your Company remains strong and continues to pursue strategic acquisitions and make investments to improve manufacturing capabilities, enhance sales and distribution infrastructure and strengthen our information systems.

FISCAL 2002 FINANCIAL RESULTS

The office furniture industry association, BIFMA (Business Institutional Furniture Manufacturer's Association), reports show a 24.7% decline in office furniture shipments during our fiscal year. This is the most severe market contraction in 30 years. During the same period Inscape sales declined 22.2% from the previous fiscal year to $134.6 million.

Your Company has been able to adjust to the economic downturn, thanks to the scalability of our facilities and a continuing management focus on controlling operating costs. Net income for fiscal 2002 was $7.7 million or 5.7% of sales compared to 14.3% in the previous fiscal year. Earnings per share this year were $0.51 compared to $1.64 in fiscal 2001. Although below what your Company would consider acceptable in a healthy economic climate and significantly lower than in recent years, we continue to outperform most publicly-traded manufacturing companies in our industry in terms of net income and earnings per share.

Gross margins declined to 35.8% from 39.9% as a result of lower business levels and competitive pricing pressures.

Earnings before interest, tax, depreciation and amortization (EBITDA) declined to $18.2 million or 13.5% of sales in fiscal 2002 from $39.7 million or 22.9% of sales in fiscal 2001. The lower levels of profitability resulted from reduced sales and the corresponding under absorption of fixed overheads.

Despite lower profits in fiscal 2002 and capital expenditures of $16.2 million to upgrade production equipment and information systems, as well as enhance distribution and sales infrastructures, the Company's cash reserves, at the end of the period totalled $41.5 million.

STRATEGIC INVESTMENTS

Inscape has taken advantage of opportunities presented by the economic downturn to make judicious investments in increasing production capacity and improve efficiencies for future growth. Lower business operating levels have allowed us to streamline our production facilities and expand training and continuous improvement activities. During the year, we added a high efficiency paintline and a self-contained worksurface fabricating plant within our Holland Landing facility. Significant improvements have also been made in our recently-acquired facility in Falconer, New York. In addition, we are in the advanced stages of installing an enterprise-wide software program that will integrate all facets of our finance, operations, sales and marketing information network.

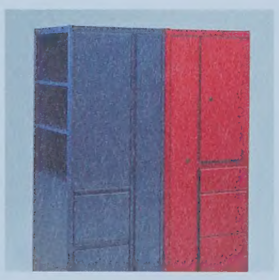
We continue to focus on the development and acquisition of intelligent solutions for the office. The addition of many innovative features and the expansion of our existing product lines support our credo of non-obsolescence and sustainability. With intelligent design, we can provide our clients with furniture solutions that will adapt to their needs as their business and the technology they use evolves at an ever-increasing rate.

This year we acquired the North American production and marketing rights for Swiss designed Sitag seating. This outstanding, highly styled collection of general office and executive ergonomic seating broadens our offering and increases the overall design appeal of our product portfolio. The new Sitag Emotion chair was launched at the Neocon World's Fair in Chicago this year and received an unprecedented reception, winning the Gold Award for executive seating in competition with new seating products from the biggest names in our industry.

INCREASING MARKET AWARENESS AND PRESENCE

At Inscape, we have expanded our product breadth into many categories to ensure that we offer our customers unique solutions for the office environment. Our high-performance system, Platform, is continuing to win favour with a diverse range of clients including financial institutions, merchandisers and various levels of government. We continue to evolve this flagship product by adding both functional and aesthetic features without creating obsolescence for our clients. We have also integrated our full height movable wall products with Platform. This combination now offers an architect or interior designer the ability to create an integrated office facility that is not constrained by permanent walls. It eliminates much of the cost and disruption of change, with the advantages of more consistent aesthetics, faster depreciation for tax purposes and a greatly reduced impact on the environment.

Our product development initiatives in filing and storage remain strong and we are focused on providing the market with leading solutions in this category. We recently introduced a unique new tower storage program that offers our customers unparalleled flexibility in utilizing their vertical space within a defined floor area.



Our investments in showrooms and sales organization development has resulted in greater recognition amongst North American architects, designers and major corporations. This increased visibility has also helped us to build and strengthen our distribution network by attracting highly professional, service-oriented dealers in target markets across North America.

STAYING THE COURSE

Your Company is more committed than ever to the development of new and intelligent products and the ways in which they are manufactured and marketed. We believe that our philosophy of listening attentively to our customers, our employees and all stakeholders in our Company is the cornerstone of our success. Objective self examination, innovation and renewal will ensure our continued industry-leading performance in the future as it has in the past. In spite of the severe industry sales decline, your Company remains profitable with substantial cash reserves. We continue to reinvest in enhancing the scope of our product offering and improving the efficiency of our production facilities and distribution network.

We sincerely appreciate the confidence of our growing number of customers, the insightful counsel of our board of directors and the loyalty and dedication of our employees. Thank you all for your continuing support.

MADAN BHAYANA
Executive Chairman

RAM RAMKUMAR
President and Chief Executive Officer

The following Management Discussion and Analysis of the financial condition and results of operations of Inscape Corporation and its subsidiaries provides information to assist the reader and should be read in conjunction with the accompanying Consolidated Financial Statements including the Notes thereto for the periods ended April 30, 2002 and 2001.

OVERVIEW

Inscape Corporation is a leading designer, manufacturer and distributor of high quality office furniture, headquartered in Holland Landing, Ontario, Canada. The Company offers a wide array of highly innovative and integrated product solutions that effectively and efficiently landscape modern office interiors, including full height movable walls, systems furniture, storage products, seating and ergonomic work tools. Company operations are based across four facilities totalling approximately 700,000 square feet.

Fiscal 2002 was a particularly challenging year for Inscape and the contract office furniture industry. Inscape remained profitable, despite a 22.2% decline in sales. According to the Business Institutional Furniture Manufacturer's Association (BIFMA), the decline in industry shipments in 2001 and 2002 is the steepest in thirty years. The decline is a result of the U.S. economic slowdown, which was exacerbated by the unfortunate events of September 11, 2001. The slowdown has resulted in a significant overall reduction in capital spending by corporations.

During Fiscal 2002, Inscape continued to make considerable capital expenditures to support its initiatives in operations and distribution. During the year, the Company concluded the acquisition of certain assets of Sitag International Inc., as well as the rights to manufacture and distribute Sitag seating products within North America. Sitag offers a broad range of high quality seating products that addresses a wide range of workplace applications. Inscape has relocated the acquired assets and has started to manufacture Sitag seating at its factory in Scarborough, Ontario. The Company is particularly encouraged that the Best of NeoCon 2002 Gold Medal in the Executive Seating category was awarded to its new Sitag Emotion™ line at the June 2002 NeoCon World's Trade Fair held in Chicago. This prestigious annual award is sponsored by the International Interior Design Association (IIDA), Facilities Design and Management magazine and Contract Magazine.

FINANCIAL HIGHLIGHTS

Years ended April 30, 2002 and 2001 (in thousands of dollars except per share amounts)	2002	2001
Revenue	$ 134,618	$ 173,032
Gross Margin	48,247	69,001
Net Income	7,711	24,661
EBITDA*	18,210	39,676
Earnings per Share	0.51	1.64

* Earnings Before Interest, Tax, Depreciation and Amortization

Quarters ended (Unaudited, in thousands of dollars except per share amounts)	April 30 2002	January 31 2002	October 31 2001	July [illegible]
Revenue	$ 29,746	$ 30,619	$ 33,616	$ 40,637
Gross margin	10,220	10,774	12,001	15,252
Net income	1,258	1,171	1,286	3,996
EBDITA	3,925	3,691	3,305	7,289
Basic & Fully Diluted Earnings Per Share	$ 0.08	$ 0.08	$ 0.09	$ 0.26

	[illegible]	[illegible]	[illegible]	[illegible]
Sales	$ 39,229	$ 45,962	$ 45,452	$ 42,389
Gross margin	13,437	18,599	19,119	17,846
Net income	4,391	6,719	7,001	6,549
EBDITA	6,999	10,865	11,264	10,548
Basic & Fully Diluted Earnings Per Share	$ 0.28	$ 0.45	$ 0.47	$ 0.44

OPERATIONS

i) Net Income

Years ended April 30, 2002 and 2001 (in thousands of dollars)	[illegible]		[illegible]	
		% of sales		% of sales
EBITDA	$ 18,210	13.5%	$ 39,676	22.9%
EBIT	10,680	7.9%	34,225	19.8%
Net Income	7,711	5.7%	24,661	14.3%

Compared to fiscal 2001, EBITDA, EBIT (Earnings Before Interest and Tax) and Net Income declined as a percentage of sales as shown in the above table. This lower level of profitability results from a combination of reduced sales (and the corresponding under absorption of fixed manufacturing overheads) and fixed costs associated with enhanced distribution and sales infrastructure. Although the Company made aggressive short-term adjustments to its cost structure to reflect the weak economic climate, it remains committed to its long-term, strategic, operational, product development and distribution initiatives. The Company believes that it is well positioned to grow earnings as economic conditions improve.

The decline in EBITDA was less than EBIT, as the current level of depreciation and amortization is higher than the previous year, principally due to the amortization of capital costs relating to the Company's new showrooms.

(a) Sales

(in thousands of dollars)	2002	2001	Change
Sales	$ 134,618	$ 173,032	(22.2%)

The decline in sales of 22.2% for the year is primarily the result of the current economic slowdown. While sales of all product lines have been adversely impacted, Platform, the Company's systems furniture line, has experienced the largest decline due to both a lower number of new project opportunities and day-to-day business. These results are consistent with current trends in the contract office furniture industry. According to BIFMA, industry shipments for the twelve months ended April 30, 2002 were 24.7% lower than the comparative period ended April 30, 2001.

(b) Gross Margin

	2002		2001	
		% of sales		% of sales
Gross Margin	$ 48,247	35.8%	$ 69,001	39.9%

Gross margin for the current year was 35.8% of sales, compared to gross margin of 39.9% of sales for the last fiscal year. The decline in gross margin is predominantly the result of the reduced level of sales and the corresponding under absorption of fixed manufacturing overheads and competitive pricing pressures.

(c) Selling, General & Administrative Expenses

	2002		2001	
		% of sales		% of sales
Selling, General & Administrative Expenses	$ 37,567	27.9%	$ 34,776	20.1%

Selling, general and administrative expenses for the current year were $37.6 million, an increase of $2.8 million dollars over the previous year. The increase is primarily the result of the completion of new showrooms in Toronto, Los Angeles, New York and Dallas, higher reserves for doubtful accounts and certain one-time charges related to the Company's aggressive cost reduction initiatives. This investment in distribution, including the addition of showrooms and the related staffing and operational costs, has increased fixed costs in these major markets. The Company strongly believes that these investments will strengthen its market presence and provide for long-term growth. Without compromising the above initiatives, the Company did take significant measures to reduce other selling, general and administrative expenses. For the second half of the year these expenses were 12.4% lower than the first half of the year.

NET INTEREST INCOME

Net interest income of $1.5 million for the year ended April 30, 2002 was lower than the $2.9 million earned in the previous fiscal year. This decrease was due to an offsetting of interest expense for loans owed by Dowcraft Corporation (which was acquired in the fourth quarter of fiscal 2001), lower interest rates experienced during the current year and lower cash balances.

TAX RATE

The Company's tax rate for the year was 37.5%, up from 34.0% in fiscal 2001. This is due to more income being earned in higher tax jurisdictions in the U.S. and because interest income, which is taxed at higher rates, was a larger portion of taxable income in 2002 than 2001.

EARNINGS PER SHARE

Basic Earnings Per Share for the year was $0.51, calculated based on the weighted average number of shares outstanding for the year of 15.1 million Diluted EPS, calculated using the Treasury Stock Method, was not materially dilutive.

LIQUIDITY AND CAPITAL RESOURCES

In fiscal 2002, Inscape generated $13.8 million in cash from operations, prior to changes in nòn-cash operating working capital, compared with $31.1 million in 2001. This decrease is primarily due to the lower level of profitability achieved in the current year.

During the year, $4.0 million was generated by reducing non-cash operating working capital, principally due to reductions in inventory and accounts receivable levels. The reduction was moderated by a decrease in accounts payable and income taxes payable.

Although fiscal 2002 was a challenging year, Inscape remains committed to its long-term sales growth and operational efficiency strategies. In order to support these strategies, the Company made significant capital investments in various parts of the business, including the completion of showrooms, manufacturing infrastructure, a state-of-the-art finishing line and information systems. Gross capital expenditures for the year ended April 30, 2002 were at an historical high for the Company, totalling $16.2 million. In addition, the Company invested $1.6 million to acquire certain assets of Sitag International Inc.

The Company declared and paid quarterly dividends totalling $6.6 million, representing a quarterly payment of $0.11 per share in the current and previous year.

During the current year, the Company repaid $4.1 million of long-term debt, of one of its subsidiary companies.

At year-end, the Company had cash reserves of $41.5 million. This is partially offset by the current portion of the long-term debt of one of the Company's subsidiary companies of $0.2 million. The Company also has a fully un-utilized line of credit of $30.3 million.

OUTLOOK

The past year was certainly very challenging for Inscape and the North American contract office furniture industry as a whole. In May 2002, BIFMA reported that industry shipments fell 29.4% in the first quarter of 2002 and they anticipate further declines from 2001 levels of 16.4% and 6.8% in the second and third quarters of calendar 2002 respectively. At the same time, recent BIFMA reports indicate that monthly shipments showed modest improvements since January 2002, offering some cautious signals that demand may be stabilizing. Consistent with BIFMA reports, the Company anticipates that, while revenues for the first quarter will increase over the levels experienced in the fourth quarter of fiscal 2002, revenues will be significantly lower than those realized in the comparative quarter of fiscal 2002. The Company expects that its earnings will be reflective of the Company's revenue performance. Consequently, while earnings during the first quarter are expected to be higher than those experienced in the fourth quarter of fiscal 2002, earnings will be considerably below those achieved in the first quarter of fiscal 2002.

Despite the fact that the industry has experienced its sharpest sales decline in thirty years, Inscape remained profitable and generated positive cash flow. Management remains optimistic that the Company's sustained positive cash flows, its substantial cash reserves of $41.5 million and its strategic investments in capital assets, acquisitions and product development will enable it to continue pursuing growth opportunities.

Certain of the above statements are forward-looking statements that involve risks and uncertainties. Actual results, particularly those achieved during the next fiscal year, could differ materially as a result of many factors, including but not limited to, further changes in market conditions and changes or delays in anticipated product demand during the next fiscal year. In addition, future results may also differ materially as a result of many factors, including: fluctuations in the Company's operating results due to product demand arising from competitive and general economic and business conditions in North America; length of sales cycles; significant fluctuations in international exchange rates, particularly the U.S. dollar exchange rate; restrictions in access to the U.S. market; changes in the Company's markets, including technology changes and competitive new product introductions; pricing pressures; dependence on key personnel; and other factors set forth in the Company's Ontario Securities Commission reports and filings.

TO THE SHAREHOLDERS OF INSCAPE CORPORATION

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The financial statements have been prepared in accordance with accounting standards generally accepted in Canada and reflect management's best estimates and judgments. All other financial information in the report is consistent with that contained in the financial statements.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibility for financial reporting and systems of internal control. The Audit Committee, which is composed of non-employee directors, meets regularly with management and external auditors to satisfy itself as to the reliability and integrity of financial information and the safeguarding of assets. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

R Ramkumar

RAM RAMKUMAR
President and Chief Executive Officer

Bartley Bull

BARTLEY BULL
Chief Financial Officer and Treasurer

TO THE SHAREHOLDERS OF INSCAPE CORPORATION

We have audited the consolidated balance sheets of Inscape Corporation as at April 30, 2002 and 2001 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Deloitte & Touche LLP

Toronto, Ontario
June 14, 2002

CONSOLIDATED BALANCE SHEETS

As of April 30, 2002 and 2001
(in thousands of dollars)

Assets		
Current		
Cash and cash equivalents	$ 41,500	$ 50,872
Accounts receivable	14,011	20,388
Inventory (Note 4)	8,009	9,848
Prepaid expenses	1,213	1,282
Income taxes receivable	2,682	1,665
	67,415	84,055
Capital assets (Note 5)	51,109	42,076
Other assets (Note 6)	4,834	5,004
Future income tax asset (Note 8)	2,203	1,560
	$ 125,561	$ 132,695
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 17,988	$ 20,990
Income taxes payable	1,529	2,767
Current portion of obligation under capital lease	-	18
Current portion of long-term debt (Note 9)	229	4,182
	19,746	27,957
Long-term debt (Note 9)	766	961
Non-controlling interest	306	416
Future income tax liability (Note 8)	3,012	2,918
	23,830	32,252
Shareholders' Equity		
Share capital (Note 10)	56,653	56,450
Retained earnings	45,078	43,993
	101,731	100,443
	$ 125,561	$ 132,695

Approved by the Board

R Ramkumar

RAM RAMKUMAR
Director

Bartley Bull

BARTLEY BULL
Director

CONSOLIDATED STATEMENTS OF INCOME

Years ended April 30, 2002 and 2001 (in thousands of dollars except per share amounts)	2002	2001
Sales	$ 134,618	$ 173,032
Cost of goods sold	86,371	104,031
Gross margin	48,247	69,001
Expenses		
Selling, general and administrative	37,567	34,776
Net interest income	(1,487)	(2,909)
	36,080	31,867
Income before income taxes and non-controlling interest	12,167	37,134
Income taxes (Note 8)	4,566	12,629
Non-controlling interest	(110)	(156)
Net income	**$ 7,711**	**$ 24,661**
Basic and diluted earnings per share (Note 10)	**$ 0.51**	**$ 1.64**

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended April 30, 2002 and 2001 (in thousands of dollars)	2002	2001
Retained earnings, beginning of year		
As previously stated	$ 43,993	$ 24,919
Adjustments to reflect change in accounting policies for		
income taxes (Note 2)	-	1,103
employee future benefits (Note 2)	-	(67)
As restated	43,993	25,955
Net income	7,711	24,661
Dividends (Note 10)	(6,626)	(6,623)
Retained earnings, end of year	**$ 45,078**	**$ 43,993**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended April 30, 2002 and 2001
(in thousands of dollars)

	2002	2001
Net (outflow) inflow of cash related to the following activities		
Operating		
Net income	$ 7,711	$ 24,661
Items not affecting cash		
Amortization	7,530	5,451
Future income taxes	(678)	1,598
(Gain) loss on sale of capital assets	(707)	6
Other assets	88	(461)
Non-controlling interest	(110)	(156)
	13,834	31,099
Changes in non-cash operating working capital items (Note 11)	3,996	3,849
	17,830	34,948
Financing		
Repayment of obligation under capital lease	(18)	(56)
Issuance of common shares	203	-
Repayment of long-term debt	(4,148)	(2,552)
Dividends paid	(6,626)	(6,623)
	(10,589)	(9,231)
Investing		
Acquisitions, net of cash acquired (Note 3)	(1,593)	(3,629)
Additions to capital assets	(16,222)	(10,882)
Proceeds from sale of capital assets	1,202	-
	(16,613)	(14,511)
Net cash (outflow) inflow	(9,372)	11,206
Cash and cash equivalents (Beginning of year)	50,872	39,666
Cash and cash equivalents (End of year)	**$ 41,500**	$ 50,872
Supplemental information		
Interest paid	$ 289	$ 112
Income taxes paid	$ 7,688	$ 10,951

1. DESCRIPTION OF BUSINESS AND ACCOUNTING POLICIES

The Company's principal business is the manufacture of office furniture.

The consolidated financial statements include the accounts of the Company and its subsidiaries. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the Company's significant accounting policies:

Revenue recognition

Revenue from the sale of goods is recognized when title passes to customers, which is generally at the time goods are shipped.

Inventory

Raw materials are recorded at the lower of cost and replacement cost determined on a first-in, first-out basis.

Work-in-process and finished goods are recorded at the lower of cost and net realizable value determined on a first-in, first-out basis.

Capital assets and amortization

Capital assets are recorded at cost less applicable investment tax credits. Amortization is provided on a straight-line basis over estimated useful lives as follows:

Building	40 years
Machinery and equipment	15 years
Tools, dies and jigs	3 years
Office equipment	10 years
Computer equipment	5 years
Computer software	3 years
Equipment under capital lease	5 years
Leasehold improvements	Over the lower of the estimated useful life and the term of the lease

Intangible assets relate to customer lists, intellectual property and technology and are being amortized, on a straight-line basis, over their estimated useful lives of 10 years.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies have been translated to Canadian dollars at the rate of exchange at the year end or the hedged rate. Transactions during the year were translated at the approximate applicable exchange rate on the date of the transactions. Exchange gains and losses are included in income.

The Company manages its foreign exchange exposure through the use of options and forward contracts. Amounts identified as being hedged by foreign currency options are translated at the option price less the cost of the option. Gains and losses on foreign exchange contracts identified as a hedge of future transactions are deferred and included in the measurement of income of related foreign currency transactions.

Accounts of foreign subsidiaries are translated using the temporal method. Under this method, monetary assets and liabilities are translated at year-end rates and non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at the average rate throughout the year. Resulting gains or losses are included in net income for the year.

Income taxes

The Company uses the liability method of income tax allocation (see Note 2). Under this method, future tax assets and liabilities are determined based on differences between financial accounting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Employee future benefits

The cost of pension benefits earned by employees covered under defined benefit plans is determined using the projected unit credit cost method prorated on service and is charged to expense as services are rendered. Aggregate gains and losses are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups, using the corridor approach. The cost of post-retirement benefits other than pensions is recognized on an accrual basis over the working lives of employees.

Stock options

The Company has a stock option plan as described in Note 10. No compensation expense is recognized for this plan when stock or stock options are issued. Any consideration paid on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

Goodwill and amortization

Goodwill represents the excess purchase price paid on acquisitions over the value assigned to identifiable net assets acquired and is amortized on a straight-line basis over a period not exceeding 25 years or written down when there has been a permanent impairment in value. In assessing whether a permanent impairment has occurred, the Company reviews the adequacy of the expected future rate of return for each investment where goodwill exists.

Other Assets

Other assets include prepayments pertaining to leased facilities and are stated at cost less accumulated amortization. Amortization is recorded on a straight line basis over the term of the lease.

Earnings per share

Earnings per share is calculated using the weighted average number of shares outstanding during the period. The treasury stock method is used for determining the dilutive effect of stock options issued in calculating diluted earnings per share.

Cash and cash equivalents

Cash and cash equivalents include cash on account and investments in money market and fixed income instruments with short-term maturities.

Use of estimates

The preparation of the Company's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CHANGE IN ACCOUNTING POLICIES

Income taxes

Effective May 1, 2000, the Company adopted the recommendations issued by the Canadian Institute of Chartered Accountants regarding income taxes. Prior to the adoption of the recommendations, the Company followed the deferral method of tax allocation.

The change resulted in an increase in the opening balance of retained earnings of $1,103 in respect of future income taxes in fiscal year 2001.

Employee future benefits

The Company adopted the Canadian accounting standards for employee future benefits effective May 1, 2000 and elected to adopt retroactively without restatement. These new standards require accrual accounting for retirement and post-employment benefits and the use of current market rates to estimate the present value of the pension liability. Prior to May 1, 2000, the cost of post-retirement benefits other than pensions, such as health and life insurance benefits for retirees, were charged to earnings when paid. The effect of the change in the accounting policy was not significant in the prior year.

Earnings per share

On May 1, 2001, the Company retroactively adopted the new recommendations issued by the Canadian Institute of Chartered Accountants with respect to earnings per share. Under the revised standard, the treasury stock method is used instead of the current imputed earnings approach for determining the dilutive effect of stock options issued.

ACQUISITIONS

On March 11, 2002, the Company acquired certain assets of Sitag International Inc., for cash considerations, plus transaction costs amounting to $1,593.

Years ended April 30, 2002 and 2001 (in thousands of dollars except share and per share amounts)

Net assets acquired, at assigned values at the acquisition date are as follows:

Current assets	$ 840
Capital assets	715
Intangible asset	38
Total consideration	$ 1,593

The purchase agreement has a provision for contingent consideration based on net sales of certain products over the next five years. Any additional consideration will be recorded as an increase to intangible asset. The amount of this contingent consideration, if any, is not determinable at this time and has not, therefore, been included in the allocation of the purchase price.

On February 1, 2001, the Company acquired all the outstanding common shares of Dowcraft Corporation a U.S. based company for cash consideration plus transaction costs amounting to $3,032.

Net assets acquired, at assigned values at the acquisition date are as follows:

Current assets (net of cash acquired of $1,569)	$ 5,113
Other assets	3,175
Capital assets	2,976
Current liabilities	(3,265)
Long term debt	(7,695)
Goodwill	2,728
Total consideration	$ 3,032

On July 19, 2000, the Company acquired a majority shareholding position in WORKMACHINE, Inc., a U.S. based company for total cash consideration of $597. No goodwill was recognized on this transaction (Note 16).

These acquisitions have been accounted for using the purchase method and the results of their operations have been included in income from their respective acquisition dates.

4. INVENTORY

	[illegible]	[illegible]
Raw materials	$ 6,772	$ 8,158
Work-in-process	482	510
Finished goods	755	1,180
	$ 8,009	$ 9,848

Notes to the Consolidated Financial Statements
Years ended April 30, 2002 and 2001 (in thousands of dollars except share and per share amounts)

5. CAPITAL ASSETS

	2002			2001		
	Cost	Accumulated amortization	Net Book Value	Cost	Accumulated amortization	Net Book Value
Land	$ 300	$ -	$ 300	$ 300	$ -	$ 300
Building and leaseholds	19,938	5,446	14,492	17,912	4,358	13,554
Machinery and equipment	36,551	11,429	25,122	28,792	9,413	19,379
Tools, dies and jigs	15,249	11,456	3,793	12,926	9,171	3,755
Office equipment	9,285	5,286	3,999	6,942	3,728	3,214
Intangible assets	2,218	921	1,297	2,200	654	1,546
Equipment under capital lease	31	31	-	31	8	23
Asset additions in progress	2,106	-	2,106	305	-	305
	$ 85,678	**$ 34,569**	**$ 51,109**	**$ 69,408**	**$ 27,332**	**$ 42,076**

6. OTHER ASSETS

	2002	2001
Goodwill (net of accumulated amortization of $135; 2001-$15) (Note 3)	$ 2,593	$ 2,713
Deferred pension asset (Note 7)	1,509	1,372
Other (net of accumulated amortization of $606; 2001 - $380)	732	919
	$ 4,834	$ 5,004

7. DEFERRED PENSION ASSET

	2002	2001
Defined benefit plans		
Benefits earned during the year	$ 518	$ 571
Interest cost on benefit obligation	850	773
Return on plan assets	(1,073)	(1,017)
Other	(28)	(62)
	$ 267	$ 265

The actuarial determinations were based on the following assumptions:

	2002	2001
Assumed discount rate - year end	7.25 - 7.5%	7.5%
Expected long-term rate of return on plan assets	8.0 - 8.5%	8.5 - 9.0%
Rate of increase in future compensation	4.0 - 4.5%	4.0 - 4.5%

Years ended April 30, 2002 and 2001 (in thousands of dollars except share and per share amounts)

The following information pertains to the Company's defined pension and other benefit plans:

Reconciliation of accrued benefit obligations	2002	
Balance, beginning of year	$ 11,361	$ 6,724
Change in accounting policy (Note 2)	-	101
Acquisitions (Note 3)	-	3,357
Current service cost	518	571
Interest cost	850	773
Benefits paid	(873)	(707)
Actuarial loss	36	542
Balance, end of year	$ 11,892	$ 11,361

Reconciliation of fair value of plan assets	2002	20[illegible]
Balance, beginning of year	$ 12,454	$ 7,531
Acquisitions (Note 3)	-	5,146
Actual return of plan assets	246	38
Employer contributions	245	169
Employee contributions	231	277
Benefits paid	(873)	(707)
Balance, end of year	$ 12,303	$ 12,454

Unamortized amounts	2002	
Funded status - surplus	$ 411	$ 1,093
Unamortized net actuarial loss	1,764	362
	2,175	1,455
Valuation allowances	(666)	(83)
Accrued benefit asset	$ 1,509	$ 1,372

The accrued benefit asset is net of valuation allowances and represents the amount of the asset recognized on the Company's balance sheet. As at April 30, 2002, one of the defined benefit pension plans, included in the previous table, had projected benefit obligations of $1,849 and fair value of plan assets of $1,718 resulting in unfunded obligations of $131. As at April 30, 2001, two of the defined benefit pension plans, included in the previous table, had aggregate projected benefit obligations of $2,958 and fair value of plan assets of $2,647, resulting in unfunded obligations of $311.

Actuarial valuations are prepared at least every three years to determine the costs of pension benefits and the appropriate amounts of contributions to the fund. The actuarial method used estimates the present value of accrued pension obligations based on projections of salaries and wages to normal retirement dates. Pension fund assets are valued using a method which brings assets to market values over a period of time in order to reflect long-term market trends rather than short-term fluctuations. Gains and losses arising from actuarial valuations are determined every three years and from asset performance annually. Such gains and losses are deferred and amortized over the expected average remaining service life of pension plan members.

Years ended April 30, 2002 and 2001 (in thousands of dollars except share and per share amounts)

8. INCOME TAXES

a) The non-current future income tax balances consists of:

	2002	2001
Future income taxes		
Tax benefits of loss carryforwards	$ 1,960	$ 1,717
Plant and equipment	78	(241)
Pensions and benefits	126	234
Other timing	39	(150)
Gross future income tax assets	2,203	1,560
Future income tax liabilities		
Plant and equipment	3,012	3,304
Other timing	-	(386)
Total future income tax liabilities	3,012	2,918
Net future income tax	$ (809)	$ (1,358)

b) The details of the income tax provision are as follows:

	2002	2001
Current	$ 4,017	$ 11,031
Future	549	1,598
	$ 4,566	$ 12,629

c) Income taxes expense, including both the current and future portion, varies from amounts which would be computed by applying the Company's combined statutory income tax rate as follows:

	2002	2001
Combined basic Canadian federal and provincial income tax rate	40.59 %	42.45 %
Increase (decrease) resulting from:		
Combined federal and provincial manufacturing and processing tax credit	(5.20)	(8.00)
Benefit of loss carry-forwards	-	(0.59)
Reduction in future income tax due to lower tax rate	-	(0.22)
Non-deductible expenses and miscellaneous	2.14	0.37
	37.53 %	34.01 %

Years ended April 30, 2002 and 2001 (in thousands of dollars except share and per share amounts)

d) As at April 30, 2002, subsidiaries of the Company have unused non-capital losses of approximately $7,850 (2001 - $ 4,746) which may be carried forward and used to reduce future years' taxable income of those subsidiaries. The future income tax benefit of these losses has been reflected in the financial statements.

The losses expire as follows:

2006	$ 98
2007	1,303
2008	1,400
2009	1,615
Thereafter	3,434
	$ 7,850

9. LONG-TERM DEBT

	2002	2001
Various loans (2002 - U.S. $656; 2001 - U.S. $799) due from August 1, 2005 to October 1, 2008 bearing interest ranging from 4.0% to 5.0%, with monthly blended payments of principal and interest totalling U.S. $15	$ 995	$ 1,193
Revolving credit note and Note payable, secured by all assets revolving credit note (2002 - $Nil; 2001 - U.S. $1,885), prime plus 1/2%, repaid during the year	-	2,813
Note payable (2002 - $Nil; 2001 - U.S. $762), prime plus 3/4%, payable U.S. $9 monthly plus interest, repaid during the year	-	1,137
	995	5,143
Less current portion	229	4,182
Total long-term debt	$ 766	$ 961

The aggregate amounts of long-term debt maturing in each of the next five years are as follows:

2003	$ 229
2004	240
2005	252
2006	202
2007	72

April 30, 2002 and 2001 (in thousands of dollars except share and per share amounts)

Authorized	Number of Shares	Amount
Class A multiple voting shares	7,670,881	
Class B subordinated voting shares	Unlimited	

Class A multiple voting shares		
Balance at May 1, 2001	5,845,881	$ 411
Conversion to Class B shares	(500,000)	(35)
Balance as at April 30, 2002	5,345,881	376
Class B subordinated voting shares		
Balance at May 1, 2001	9,207,436	56,039
Conversion from Class A shares	500,000	35
Shares issued	14,500	203
Balance as at April 30, 2002	9,721,936	56,277
Total as at April 30, 2002	**15,067,817**	**$ 56,653**

During the year, the Company declared and paid a series of quarterly dividends of $0.11 per Class A and Class B share per quarter for a total of $6,626. In addition, the Company issued 14,500 Class B subordinated voting shares upon the exercise of options at a price of $14.00, for proceeds of $203.

During the previous year, the Company declared and paid a series of quarterly dividends of $0.11 per Class A and Class B share per quarter for a total of $6,623.

The Company has allotted and reserved 1,500,000 Class B subordinated voting shares under its 1998 Employee Stock Option Plan. Under the stock option plan, options may be granted to purchase Class B subordinated voting shares at the market price at the time of grant. All options currently expire four to seven years from the date of grant. With the exception of 15,000 options which vested immediately, all other options vest either two years prior to the expiry date of the option, at various anniversaries of the date of the grant or contingent upon the Company meeting specified performance targets as outlined in the option grant certificate.

A summary of the status of the Company's stock option plan as of April 30, 2002 and 2001 and changes during the years ending on those dates is presented below:

	2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	519,750	$ 19.29	298,500	$ 20.69
Granted	310,500	16.84	276,250	18.17
Exercised	(14,500)	14.00	-	-
Expired	(113,750)	21.06	(55,000)	21.27
Outstanding, end of year	**702,000**	**$ 18.03**	**519,750**	**$ 19.29**
Options exercisable at year end	**91,500**	**$ 17.65**	**58,500**	**$ 15.57**

Years ended April 30, 2002 and 2001 (in thousands of dollars except share and per share amounts)

The following table summarizes information about the stock options outstanding at April 30, 2002.

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding at Year End	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at Year End	Weighted Average Exercise Price
$14.00	29,000	0.6	$14.00	29,000	$14.00
$15.60 to $22.50	673,000	5.0	18.20	62,500	19.35
	702,000	**4.9**	**$18.03**	**91,500**	**$17.65**

Basic and diluted earnings per share calculations

The following tables set forth the computation of basic and diluted earnings per share:

Numerator	2002	2001
Net income for the year for basic and diluted earnings per share	$ 7,711	$ 24,661

Denominator	2002	
Denominator for basic earnings per share		
Weighted average shares	15,059,236	15,053,317
Effect of dilutive securities		
Stock options	8,900	32,155
Denominator for diluted earnings per share	**15,068,136**	**15,085,472**

Stock options for 575,500 shares (2001 - 237,500 shares) were not included in the computation of diluted earnings per share, as they were not dilutive for the years presented.

11. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

Accounts receivable	$ 6,377	$ 4,568
Inventory	2,678	(1,353)
Prepaid expenses	69	1,023
Accounts payable and accrued liabilities	(3,002)	(637)
Income taxes payable	(2,126)	248
	$ 3,996	**$ 3,849**

12. COMMITMENTS

The Company and its subsidiary companies have operating lease commitments, with varying terms, requiring approximate annual payments as follows: 2003 - $2,992; 2004 - $2,847; 2005 - $2,448; 2006 - $2,151; 2007 - $1,788; 2008 and beyond $3,606.

Years ended April 30, 2002 and 2001 (in thousands of dollars except share and per share amounts)

SEGMENTED INFORMATION

The Company operates under one reporting segment, which is the design, manufacture and distribution of office systems and furniture.

The Company's ultimate customers are primarily located in the United States.

Revenue from	2002	2001
United States	$ 121,443	$ 153,260
Canada and other	13,175	19,772
	$ 134,618	$ 173,032

Goodwill and Capital Assets	2002	2001
Canada	$ 42,849	$ 37,904
United States	10,891	4,172
	$ 53,740	$ 42,076

FINANCIAL INSTRUMENTS

Concentration of credit risk

On April 30, 2002 and 2001, no one customer exceeded 10% of consolidated accounts receivable. No customer accounted for more than 10% of total revenue. Due to the large base of customers, in the opinion of the Company's management, credit risk relating to its accounts receivable is low. However, allowances are maintained for potential credit losses.

Fair value

The fair value of financial instruments is determined by reference to various market data and other valuation techniques, as appropriate.

Cash and cash equivalents, accounts receivable, income taxes payable, accounts payable and accrued liabilities are all short-term financial instruments. Consequently, their carrying values approximate their fair values.

The estimated fair value of long-term debt is determined by discounting future cash flows at the current market rate for similar long-term debt. The carrying values of the variable rate long-term debts approximate their fair values due to the notes bearing interest at a variable rate. The differences between fair value of the fixed rate long-term debt and its carrying amount are considered to be immaterial.

Foreign exchange risk

The Company uses foreign currency options and forward foreign exchange contracts to hedge its U.S. dollar revenue exposure to the U.S./Canadian dollar exchange. The Company's foreign exchange risk is limited to any gains or losses existing at any time when the current exchange rate is different from the exchange rate applicable to the foreign currency options. All such instruments are used only to manage risk and not for trading purposes.

Forward foreign exchange contracts and options

A substantial portion of the Company's sales is in U.S. dollars, which gives rise to foreign exchange exposure. In order to hedge the exposure associated with the net cash inflow of U.S. dollars, the Company enters into foreign exchange contracts and option agreements. Under these contracts, the Company is obliged to sell or buy dollars at predetermined dates and exchange rates. As at April 30, 2002, the Company has a series of contracts expiring during the next twelve months, to sell a total of U.S. $61,000 (2001 - U.S. $42,000) at an average exchange rate of Cdn $1.58 (2001 - $1.52).

As at April 30, 2001, the Company also had options to buy U.S. dollars equivalent to Cdn $47,354 at exchange rates ranging from U.S. $0.64 to U.S. $0.68. In addition, the Company had sold an equivalent amount of options, whereby the holder of the option can require the Company to buy Canadian dollars at rates ranging from U.S. $0.64 to U.S. $0.67.

There is a net unrealized gain of $222 (2001 - net unrealized loss of $1,466) from these contracts at April 30, 2002.

15. CREDIT FACILITY

The Company has an available line of credit of $30,250 with its banker, secured by a general security agreement and bearing interest at the prevailing bank prime rate. There is no outstanding balance at April 30, 2002.

16. SUBSEQUENT EVENTS

Subsequent to year end, the Company provided an irrevocable standby letter of credit in the amount of U.S. $7.1 million, expiring on December 31, 2002, in favour of a customer as security, pending performance under a certain furniture supply contract.

The Company sold its interest in WORKMACHINE, Inc. As part of this transaction, the Company acquired certain intellectual property.

THE HONOURABLE DAVID R. PETERSON P.C., Q.C.[1,2,3]

Following a distinguished career in politics, including serving as Premier of Ontario from 1985 to 1990, Mr. Peterson joined the Toronto law firm of Cassels Brock & Blackwell LLP as a senior partner and currently serves as Chairman of the firm. Mr. Peterson was founding Chairman of Chapters Inc. and the Toronto Raptors Basketball Club Inc. He is also a director of a number of major corporations and several cultural, environmental and educational organizations.

Alan J. Power is President and Chief Executive Officer of Decoma International Inc., a supplier of exterior vehicle appearance systems for the automotive industry. He has directed Decoma's global growth since becoming President in 1993, having commenced his career with the Magna group in 1987. In 1999, Mr. Power became a member of Top 40 Under 40 and in 2001 received the "Leader of the Year" award from the Canadian Plastics Industries Association.

Ms. Young is one of the leading strategists in the advertising and marketing community. In 2001, she co-founded Young & Bailey, LLC, a strategic consultancy serving a prestigious client list. From 1984 through 2002 she was at Lowe & Partners, fourth largest advertising and marketing communications company in the world where she served as Chief Strategy Officer and on their World Wide Operating Board, and as Strategic Counselor on the Strategic Advisory Board. Ms. Young also serves on the Board of Advisors to HotSpring, a New York based brand consultancy. Additionally, she lectures at the Johnson School of Management at Cornell University. Ms. Young was a Ford Fellow at the University of Wisconsin where she received her MA in Communication Theory.

MADAN BHAYANA[1]
Executive Chairman
Chairman of the Board
Inscape Corporation

RAM RAMKUMAR[1]
President and Chief Executive Officer
Inscape Corporation

BARTLEY BULL[1]
Chief Financial Officer and Treasurer
Inscape Corporation

RAJEEV K. PASRICHA
Executive Vice President
Inscape Corporation

ROHIT BHARDWAJ
President Finan
Corporate Se

JOE CYR
Inscape Ltd

LEIGH WRIGHT
Office Specialty Ltd

1 Board Member
2 Member of Audit Committee
3 Member of Compensation Committee

Design: Context Creative Inc.

LISTING OF CAPITAL STOCK

The shares of the Company are listed on the Toronto Stock Exchange under the stock symbol INQ.

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company
P.O. Box 7010, Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
Tel: (416) 643-5500 or 1-800-387-0825
E-mail: inquiries@cibcmellon.com

AUDITORS

The shareholders' auditors are Deloitte & Touche LLP, Toronto, Ontario.

FINANCIAL CALENDAR

Fiscal year end: April 30

ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders will be held on September 18, 2002 at 4:00 pm at the TSE Conference Centre, The Exchange Tower, 130 King Street West, Toronto, Ontario M5X 1J2.

SHAREHOLDER ACCOUNT INFORMATION

Shareholders seeking assistance or information concerning their accounts may contact CIBC Mellon Trust Company at (416) 643-5500 or toll free (North America) at 1-800-387-0825.

ANNUAL INFORMATION FORM

A copy of the Inscape Corporation Annual Information Form is available from the Secretary of the Company upon request at 67 Toll Road, Holland Landing, Ontario L9N 1H2.

INVESTOR INFORMATION

Shareholders seeking assistance or information about the Company are invited to contact Bartley Bull, Chief Financial Officer, at 67 Toll Road, Holland Landing, Ontario L9N 1H2.

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